

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE VERIFIED JOINT APPLICATION	)	
OF BOONESBORO WATER	)	
ASSOCIATION, INC. AND	)	
KENTUCKY-AMERICAN WATER	)	
COMPANY FOR APPROVAL OF THE	)	CASE NO. 97-320
TRANSFER OF THE OWNERSHIP OF	)	
THE ASSETS OF BOONESBORO	)	
WATER ASSOCIATION, INC. TO	)	
KENTUCKY- AMERICAN WATER	)	
COMPANY	)	

O R D E R

IT IS ORDERED that Boonesboro Water Association ("Boonesboro Water") and Kentucky-American Water Company ("Kentucky-American") shall file the original and 10 copies of the following information with the Commission with a copy to all parties of record no later than August 22, 1997. Boonesboro Water and Kentucky-American shall furnish with each response the name of the witness who will be available to respond to questions concerning each item of information requested should a public hearing be scheduled.

1. List and describe the economic benefits which Kentucky-American customers will gain through the proposed transaction.

2. a. Are the assets to be transferred presently encumbered by any debt, mortgage, pledge, charge, security interest, lien, or other encumbrance?

b. If yes, list each encumbrance and state how Boonesboro Water will remove the encumbrance.

3. a. Have the members of Boonesboro Water voted upon the proposed transaction?

b. If yes, what were the results of the vote?

c. If no, will a vote be taken? If no vote is planned, why not?

4. Provide all correspondence between Boonesboro Water and the Winchester Municipal Utilities Commission ("WMU") concerning WMU's request that Boonesboro Water not add any customers after February 9, 1996.

5. a. Does Kentucky-American intend to connect its existing distribution system to Boonesboro Water's system?

b. If yes,

(1) Describe how Kentucky-American would make this connection.

(2) Provide the distance between Kentucky-American's distribution system and Boonesboro Water's system.

(3) When would such connection be made?

(4) What is the estimated cost of this connection?

(5) Provide all plans, studies, memoranda, correspondence and other documents in which such connection is discussed.

6. How long does Kentucky-American intend to purchase water from WMU if the proposed transaction occurs?

7. Describe the litigation between Boonesboro Water and WMU which is currently pending in U.S. District Court for the Eastern District of Kentucky.

8. Describe the claim or controversy surrounding WMU's movement of Boonesboro Water's master meters.

9. Provide all studies, analyses, reports, internal memoranda and correspondence which discuss Kentucky-American's cost to provide service to Boonesboro Water's current customers.

10. If the transaction occurs, what actions will Boonesboro Water take regarding customer deposits which it holds for water and sewer service?

11. If the transaction occurs, under what circumstances will Kentucky-American require deposits from Boonesboro Water's customers?

12. Refer to the Joint Application, paragraph 12.

a. How can Kentucky-American operate Boonesboro Water's system more cost efficiently if it charges Boonesboro Water's customers the same rate which it charges its current customers?

b. Provide a comparison between the expected revenues from sales to current Boonesboro Water customers if Boonesboro Water's current rates are used and if Kentucky-American's current rates are used.

13. In paragraph 9 of the Joint Application, Kentucky-American shows that Boonesboro Water's average residential customer would pay \$19.50 using Kentucky-American's existing rates. Provide the estimate of Boonesboro Water's average residential bill using the rates proposed by Kentucky-American in Case No. 97-034.<sup>1</sup>

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<sup>1</sup> Case No. 97-034, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on and after March 30, 1997.

14. a. Identify all expected cost savings which Kentucky-American expects to achieve from its operation of the Boonesboro Water system.

b. For each cost savings identified above, state the expected amount of such savings and how this savings was determined.

15. a. Did WMU make any offer to acquire Boonesboro Water's facilities or discuss the possible acquisition of such facilities?

b. If yes, describe these discussions.

c. Provide all correspondence between WMU and Boonesboro in which the possible acquisition of Boonesboro Water facilities was discussed.

16. What effect, if any, will the acquisition of Boonesboro Water have on Kentucky-American's present capital expenditure plans for the next five years?

17. Provide the board of directors' resolution which authorized Boonesboro Water to enter the Asset Purchase Agreement.

18. Provide the accounting journal entries Kentucky-American will record to reflect the purchase of Boonesboro Water's assets.

19. Provide the accounting journal entries Boonesboro Water will record to reflect the sale of its assets to Kentucky-American.

20. Exhibit 1 page 1, paragraph 2, of the Asset Purchase Agreement, shows that Kentucky-American has agreed to pay Boonesboro Water \$499,190 for its tangible assets. Explain how Kentucky-American and Boonesboro Water arrived at the purchase price of \$499,190.

21. a. Upon transfer of its assets to Kentucky-American will Boonesboro Water continue to function in any capacity, or will the corporation be dissolved?

b. If the corporation will not be dissolved, in what capacity will Boonesboro Water continue to function?

22. In Exhibit 1 page 7, item 4, of the Asset Purchase Agreement, the following statement is made: "All of seller's debts and liabilities will be settled prior to or on the Closing Date and any debts outstanding on the Closing Date will remain Seller's sole obligation and will be paid by Seller under this Agreement." Will Boonesboro Water's December 31, 1996 balance of \$40,777 in Account 252, Advances for Construction, be treated as a liability to be paid by the seller after the sale or as contributed capital which will be recorded in the books of the buyer?

23. Based on the information contained in the application and financial information obtained from Boonesboro Water's 1996 annual report on file with the Commission, it appears that Boonesboro Water will have excess proceeds from the proposed sale ranging from \$260,000 to \$300,000,<sup>2</sup> depending on the treatment of the balance in Account 252. How will Boonesboro Water use the proceeds from the sale of its assets?

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<sup>2</sup>	Proceeds from sale	\$ 499,190
	Less: Liabilities at 12/31/96	(430,241)
	Plus: Cash on hand at 12/31/96	192,635
	Accounts Receivable at 12/31/96	<u>39,241</u>
	Maximum Excess Proceeds	300,825
	Less: Account 252	<u>(40,777)</u>
	Minimum Excess Proceeds	<u>\$ 260,048</u>

Done at Frankfort, Kentucky, this 15th day of August, 1997.

PUBLIC SERVICE COMMISSION

A handwritten signature in dark ink, appearing to be "S. H. ...", written over a horizontal line.

For the Commission

ATTEST:

A handwritten signature in dark ink, reading "Don Mills", written over a horizontal line.

Executive Director